

Vehicle License Fee Adjustment:

*The Department of Motor Vehicles
Effectively Captured the Information
Needed to Calculate the Adjustment*



September 2005
2005-125.1

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CALIFORNIA STATE AUDITOR

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September 30, 2005

2005-125.1

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Motor Vehicles' (DMV) capture of information needed for the State to calculate the fiscal year 2005-06 vehicle license fee adjustment.

The report concludes that the DMV captured sufficient information to appropriately compute that it would have collected \$6.5 billion in vehicle license fees had the 2 percent vehicle license fee rate remained in effect during fiscal year 2004-05. Specifically, the DMV made changes to its information systems to effectively bill and account for the correct vehicle license fee rate and offset. In addition, our review of 39 transactions for vehicle license fee collections and offsets revealed that the changes the DMV made to its information systems worked as intended. Finally, the DMV recorded the vehicle license fee information in sufficient detail to determine the date it collected the fees and the year for which it assessed them.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

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SUMMARY

Audit Highlights . . .

Our review of the Department of Motor Vehicles' (DMV) capture of information needed by the State to calculate the fiscal year 2005–06 vehicle license fee adjustment found that:

- The DMV captured sufficient information to appropriately compute that it would have collected \$6.5 billion in vehicle license fees during fiscal year 2004–05 had the 2 percent vehicle license fee rate remained in effect during the fiscal year.*
 - The DMV made changes to its information systems to effectively bill and account for the correct vehicle license fee rate and vehicle license fee offset.*
 - Based on our review of 39 transactions and significant adjustments related to vehicle license fee collections and offsets, the changes the DMV made to its information systems worked as intended and it appropriately accounted for the collections and offsets during fiscal year 2004–05.*
 - The DMV recorded the vehicle license fee information in sufficient detail to determine the date that it collected the fees and the year for which it assessed them.*
-

RESULTS IN BRIEF

The Department of Motor Vehicles (DMV) assesses, bills, and collects vehicle license fees from vehicle owners. For many years state law set the vehicle license fee rate at 2 percent of the market value of a vehicle. However, the Legislature amended statutes to require a reduction in the vehicle license fees that vehicle owners paid from 1999 through 2004. For example, from July 1, 2001, through December 31, 2004, state law required a 67.5 percent reduction to the 2 percent rate, meaning that vehicle owners in the State paid vehicle license fees at the rate of 0.65 percent of their vehicles' market value.

Because state law requires the State Controller's Office (controller's office) to allocate money collected from vehicle license fees to cities and counties, the reduction in vehicle license fees paid would have resulted in significant revenue losses for local governments. However, state law in effect during the period required the State to *offset*, or make up for, the reduction in the vehicle license fees by making transfers from the General Fund. Legislation enacted in 2004 eliminated the General Fund offset to the vehicle license fee rate effective January 1, 2005, and concurrently reduced the rate to 0.65 percent of the market value of a vehicle. In addition, the legislation altered the funding source for compensating local governments for the loss of vehicle license fee revenues, switching from the General Fund to local property taxes. The legislation also required the controller's office to calculate and report by October 15, 2005, the vehicle license fee adjustment for fiscal year 2005–06. As used in state law, the term *vehicle license fee adjustment* is the compensation local cities and counties receive from local property taxes. We will issue in October 2005 our report on the calculation of the vehicle license fee adjustment the controller's office is required to make.

The DMV captured sufficient information to compute that it would have collected \$6.5 billion in vehicle license fees had the 2 percent rate remained in effect during fiscal year 2004–05. This calculation consisted of \$4.4 billion in vehicle license fee reductions and \$2.1 billion in vehicle license fees the DMV actually collected during the fiscal year. We use the term *vehicle*

license fee reduction to refer to the difference between the fees the DMV would have collected from vehicle owners if they had paid vehicle license fees at a rate of 2 percent and the fees it actually collected in fiscal year 2004–05.

We found that the DMV made changes to its information systems to effectively bill and account for the correct vehicle license fee rate and the vehicle license fee offset. In addition, our review of 39 transactions for vehicle license fee collections and offsets revealed that the changes the DMV made to its information systems worked as intended. We also determined through our review of the transactions and significant adjustments to the vehicle license fees and offsets that the DMV appropriately accounted for the collections and offsets during fiscal year 2004–05. Finally, the DMV recorded the vehicle license fee information in sufficient detail to determine the dates on which it collected the fees and the years for which it assessed them.

AGENCY COMMENTS

Both the DMV and the Business, Transportation and Housing Agency were pleased with the results of our review. ■

INTRODUCTION

BACKGROUND

The annual vehicle license fees that vehicle owners in California pay are an important source of revenue for cities and counties. The Department of Motor Vehicles (DMV) collects the fees, and the State Controller's Office (controller's office) allocates the fees to local governments based on their populations. Under current law, cities and counties must use about 75 percent of vehicle license fee revenues for health and welfare realignment programs but have discretion in the use of the remainder.

The rate for vehicle license fees that owners paid remained stable for many years at 2 percent of the market value of their vehicles, but recently the Legislature amended state law to reduce that rate. To fully compensate cities and counties for the resulting reduction in revenues, the law originally required the State to transfer amounts from the General Fund. These transfers are known as *vehicle license fee offsets*. However, in 2004 the Legislature enacted other changes to state law that repealed the requirement that General Fund transfers be used to make up for the lost revenues. Instead, according to the amended state law, each county must make up for the lost revenue by reducing the amount of local property tax revenue it otherwise would allocate to the county Educational Revenue Augmentation Fund (ERAF).

Since the early 1990s every county must allocate a specific amount of its local property tax revenue to the county ERAF for local educational agencies to use to augment state funding for public education. The 2004 changes to state law require counties to reduce their ERAF allocations, except in fiscal years 2004–05 and 2005–06, by essentially the same amounts they would have received if the State were still providing money from the General Fund. Each county must allocate the amount of the ERAF allocation reduction—known as the *vehicle license fee adjustment*—to local governments to compensate for the revenues they lost as a result of the lower vehicle license fees that vehicle owners paid. In addition, to make up for the reduced amount of money available in county ERAFs, state law requires adjustments be made to the percentage of General Fund money the State appropriates for funding public education so local educational agencies experience no net fiscal effect.

Because the vehicle license fee adjustment for fiscal year 2005–06 will play an important role in the calculation of the adjustment in subsequent years, an accurate calculation of the amount of the adjustment is particularly crucial. Section 97.70(c) of the Revenue and Taxation Code states that for fiscal year 2006–07 and each fiscal year thereafter, county auditors will use the prior year’s vehicle license fee adjustment as one component of the current year’s adjustment calculation. Thus, the adjustment to be determined by October 15, 2005, will serve as the foundation for the calculation of the vehicle license fee adjustment to be transferred from property taxes in future years.

STATE LAW REQUIRES THE COLLECTION OF VEHICLE LICENSE FEES AND THEIR ALLOCATION TO CITIES AND COUNTIES

In 1935 the Legislature established the vehicle license fee in lieu of a property tax on vehicles. The State, through the DMV, annually assesses, bills, and collects vehicle license fees for most vehicles subject to registration in California.¹ Vehicle license fees are assessed in addition to other fees, such as vehicle registration fees, air quality fees, and commercial vehicle weight fees. State law requires the vehicle license fee to be based on the vehicle’s

market value, which is derived from the purchase price of the vehicle, and requires the market value to be annually depreciated by specific percentages.

The California Constitution requires vehicle license fees to be allocated to cities and counties as provided in state law. Statutes require the controller’s office to allocate the vehicle license fees that the DMV collects to cities and counties on the basis of population, after the deduction of expenses to enforce, administer, and allocate the vehicle license fees collected. As shown in the text box, the State uses specific accounts within two funds—the Local Revenue Fund and the Transportation Tax Fund—to deposit the collected vehicle license fees in statutorily required percentages before making allocations to cities and counties.

The State Uses Two Funds to Deposit License Fees

Fund	Currently Authorized Percentage
Local Revenue Fund— Vehicle License Fee Account	74.9%
Transportation Tax Fund— Motor Vehicle License Fee Account	25.1%

Source: Revenue and Taxation Code, Section 11001.5(a)(1).

¹ Certain vehicles, such as those owned or leased by government entities and trailers in the permanent trailer identification plate program, are exempt from paying vehicle license fees.

The controller's office allocates the vehicle license fees to cities and counties in two monthly payments. According to the statutes, cities and counties must use vehicle license fees allocated from the Local Revenue Fund for health and welfare realignment programs. State law does not specify the use of vehicle license fees allocated to cities and counties from the Transportation Tax Fund.

THE LEGISLATURE REDUCED THE AMOUNTS VEHICLE OWNERS PAID, OFFSETTING THE REDUCTION WITH GENERAL FUND PAYMENTS

Beginning in 1949 state law required a 2 percent rate for vehicle license fees, meaning that each vehicle license fee assessed, billed, and collected was 2 percent of the vehicle's current market value. However, the Legislature amended the law in recent years to provide tax relief to vehicle owners by reducing the vehicle license fees they paid, even though the Legislature retained the 2 percent rate in law. This reduction in vehicle license fees paid would have resulted in significant revenue losses for local governments if the State allocated to them only the actual amounts it collected in vehicle license fees from vehicle owners. Therefore, the Legislature included in state law the requirement that the money needed to *offset*, or make up for, the reduction in paid vehicle license fees be transferred from the General Fund to the Transportation Tax Fund and the Local Revenue Fund. Table 1 shows the operative dates of these amendments to state law, offset percentages, and vehicle license fee rates paid by vehicle owners.

TABLE 1
Amendments to State Law Required Offsets to the Reduction in the Rate of the Vehicle License Fee Paid

Operative Date of the Amendment	Offset Percentage	Vehicle License Fee Rate Vehicle Owners Actually Paid
January 1, 1999	25.0%	1.50%
January 1, 2000	35.0	1.30
July 1, 2001	67.5	0.65

Source: Chapter 322, Statutes of 1998, as amended.

For fiscal years 1998–99 through 2003–04, the transfers the State made from the General Fund ranged from \$482 million to \$3.8 billion. As a result of these transfers, cities and counties continued to receive the same revenues they would have received if vehicle owners had paid their vehicle license fees at the 2 percent rate. However, the law stated that within 90 days of finding that there was insufficient money available for transfer from the General Fund to provide the full amount needed for the offsets, the State must reduce or eliminate the vehicle license fee offset.

In June 2003 the director of the Department of Finance (Finance director), who has authority over the State’s financial and business policies, triggered the elimination of the offset when he made the finding that the General Fund did not have sufficient money to transfer the full amount needed to fund the offset. As a result of the Finance director’s finding, the 67.5 percent offset was eliminated effective June 2003, and the vehicle license fee rate that vehicle owners paid was returned to 2 percent of the market value of their vehicles, effective October 1, 2003. However, in a November 2003 Executive Order, the governor stated that the Finance director’s determination of insufficient funds was in error, reinstated the offset, and directed the DMV to provide refunds to any taxpayers who had paid vehicle license fees at the 2 percent rate.

During the period between the elimination and reinstatement of the offset in 2003, the State stopped making General Fund transfers to cities and counties, causing a gap in funding to local governments. To rectify the loss of funding, state law requires the controller’s office to transfer from the General Fund, by August 15, 2006, an amount equal to the offsets not transferred during the funding gap. The State has appropriated nearly \$1.2 billion for transfer to cities and counties in fiscal year 2005–06 to pay for the gap in funding.

STATUTORY CHANGES IN 2004 ALTERED THE SOURCE OF FUNDS USED TO COMPENSATE LOCAL GOVERNMENTS

Among the actions taken by the Legislature to implement additional changes in the laws governing vehicle license fees was the enactment of Chapter 211, Statutes of 2004 (Chapter 211), which the governor approved in August 2004. Effective January 1, 2005, Chapter 211 reduced the vehicle license fee rate to 0.65 percent of the market value of a vehicle, repealed the

General Fund offset to the vehicle license fee, and established an alternative funding source for compensating cities and counties. Table 2 shows how the statutory change in the vehicle license fee rate and offset affected the vehicle license fee assessed by the DMV and paid by a vehicle owner as of January 1, 2005. Using the example of a vehicle with a market value of \$20,000, the table shows that although the vehicle license fee rate was reduced and the offset eliminated, the amount each vehicle owner paid did not change.

TABLE 2

The Statutory Change in the Vehicle License Fee Rate and Offset Did Not Affect the Amounts Vehicle Owners Paid

	July 1, 2001, Through December 31, 2004	On or After January 1, 2005
Market value of vehicle (a)	\$20,000	\$20,000
Vehicle license fee rate (b)	2.00%	0.65%
Vehicle license fee required by statute and billed (c) = (a) x (b)	\$400	\$130
Offset rate in effect (d)	67.5%	None
Offset amount (e) = (c) x (d)	\$270	\$0
Vehicle license fee paid by vehicle owner (c) – (e)	\$130	\$130

Source: Chapter 211, Statutes of 2004.

In addition to eliminating the vehicle license fee offset, Chapter 211 altered the source of funds used to compensate local governments for the loss in revenues related to the reduction in vehicle license fees. Beginning in fiscal year 2004–05, Chapter 211 eliminated the General Fund transfers to cities and counties but added a section to the Revenue and Taxation Code requiring county auditors to reduce the property tax revenues they allocate to the county ERAFs by an amount essentially equivalent to revenues they would have received from vehicle license fees if the State had continued paying offsets with General Fund money.

Since the early 1990s county auditors have been required to allocate certain property tax revenues to the county ERAFs for use by local educational agencies—county offices of education, school districts, and community college districts. Although reducing the property tax revenue that each county must contribute to its ERAF reduces the amount of property tax revenue available for local educational agencies to use, state law now requires the State to adjust the percentage of General Fund

money that it appropriates for local educational agencies so there is no net fiscal effect on those entities. This General Fund money is made available to local educational agencies as part of the allocations they receive from the State each year. Chapter 211 also required the counties, cities, special districts, and redevelopment agencies to contribute a share of their property tax revenues in fiscal years 2004–05 and 2005–06 to the county ERAFs to be used for funding public schools. The \$1.3 billion the local governments contribute each year reduces the General Fund allocation the State has to make available to public schools in those years.

Section 97.76(b) of the Revenue and Taxation Code requires the controller’s office to determine by October 15, 2005, the vehicle license fee adjustment for each city, county, and

combined city and county for fiscal year 2005–06 and notify each county auditor of these amounts. Section 97.70(c) of the Revenue and Taxation Code specifies the calculation of the vehicle license fee adjustment as shown in the text box. That section also requires the vehicle license fee adjustment for fiscal year 2005–06 to be increased or decreased by the difference between the vehicle license fee adjustments calculated for fiscal years 2004–05 and 2005–06. County auditors will use the vehicle license fee adjustments to transfer sufficient property tax revenues to the local governments in their counties to maintain vehicle license fee revenues as if the collections and allocations had continued at the historical 2 percent rate. Moreover, in each subsequent year county auditors will calculate the current year’s transfers from county ERAFs by using the prior year’s vehicle license fee adjustments, modified by the percentage change in property values. Our report on the calculation of the vehicle license fee adjustment that the controller’s office is required to make will be issued in October 2005.

**Formula for the Fiscal Year 2005–06
Vehicle License Fee Adjustment**

$$[(A) - (B)] + \{[(A) - (B)] \times (C)\}$$

where:

- (A) = The fees that would have been deposited in the Transportation Tax Fund’s Motor Vehicle License Fee Account in fiscal year 2004–05 and allocated to local governments if the vehicle license fee rate was 2 percent of the market value of a vehicle.²
- (B) = The actual fees allocated from the Transportation Tax Fund’s Motor Vehicle License Fee Account in fiscal year 2004–05 to local governments.
- (C) = The percentage change in property values in cities and counties from the prior fiscal year to the current fiscal year (growth factor).

Source: Revenue and Taxation Code, Section 97.70.

² Section 97.70(c) of the Revenue and Taxation Code requires the amount of fees deposited to be at the rate in effect on January 1, 2004, when the Transportation Tax Fund’s Motor Vehicle License Fee Account received 71.9 percent of the vehicle license fees.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee requested the Bureau of State Audits to verify that the calculation of the vehicle license fee adjustment for fiscal year 2005–06 is accurate and fully complies with state law. To obtain an understanding of the vehicle license fee adjustment, we reviewed current and prior state laws relevant to the calculation of the adjustment and to the assessment, collection, and reporting of vehicle license fees.

To determine whether the DMV captured information regarding vehicle license fees collected in sufficient detail to determine the dates it collected fees and the years it assessed them, we reviewed the DMV’s accounting records, including its vehicle license fee offset reports and revenue reports.

To assess the reliability of the vehicle license fees that the DMV collects and reports, we used the DMV’s information systems to obtain data relating to the vehicle license fees that vehicle owners owed at the statutorily set rates, the vehicle license fees that the DMV collected, and the vehicle license fee offsets. We assessed the reliability of the vehicle license fees collected and reported and the vehicle license fee offsets used to determine the vehicle license fee adjustment by interviewing key staff to identify pertinent system controls. We also reviewed the DMV’s process to change the information systems it uses in relation to vehicle license fees and offsets to determine whether the DMV effectively made changes as the law changed. In addition, our assessment included tracing a sample of vehicle license fee collection and offset data to source documents and verifying the appropriateness of significant adjustments to the DMV’s calculations. Further, we reviewed the DMV’s procedures for reporting vehicle license fees and offsets at the beginning and end of fiscal year 2004–05 to ensure that it accounted for the fees and offsets it remitted in the appropriate fiscal year.

In our assessment of the reliability of the vehicle license fees that the DMV collects and reports, we determined that the accuracy of the market value of vehicles on which the DMV bases the vehicle license fees it assesses was not within the scope of our audit. Accordingly, we did not conduct tests of either the market value of the vehicles or the depreciation schedule the DMV uses to annually adjust the market value of vehicles. State law specifies the depreciation percentages the DMV uses.

We will issue in October 2005 our report on the calculation of the vehicle license fee adjustment the controller's office is required to make. ■

AUDIT RESULTS

THE DEPARTMENT OF MOTOR VEHICLES APPROPRIATELY ACCOUNTED FOR VEHICLE LICENSE FEES AND OFFSETS FOR FISCAL YEAR 2004–05

Because the Department of Motor Vehicles (DMV) bills for and collects vehicle license fees from vehicle owners, its information will serve as the primary source for the State Controller's Office (controller's office) to use in calculating the statutorily required vehicle license fee adjustment for fiscal year 2005–06. We found that the DMV plans to report to the controller's office the appropriate vehicle license fees it would have collected if the 2 percent vehicle license fee rate had remained in effect. In addition, the DMV will report the appropriate vehicle license fee reduction—the difference between the vehicle license fees it would have collected at the 2 percent rate and the vehicle license fees it actually collected during fiscal year 2004–05. To do this, the DMV changed its information systems to bill and account for the correct vehicle license fee rate and the vehicle license fee offset. In addition, it recorded the vehicle license fee information in enough detail to determine the date it collected the fees and the years for which it assessed the fees.

The invoices the DMV sends to vehicle owners in the State to register their vehicles include detailed information about vehicle license fees and other fees. After vehicle owners pay the fees, the DMV's information systems capture data from the invoices and use the data to produce daily and monthly reports. Those reports formed the basis of the vehicle license fee reduction and collections the DMV reported to the controller's office for fiscal year 2004–05. In addition to the amounts shown on the invoices for vehicle license fees collected, the DMV's information systems also capture the offset amounts reported daily by the DMV's field offices and then categorize the collections and offsets by the year in which the DMV assessed the fees. Each day the DMV reports its vehicle license fee collections and offsets to the controller's office, and each month the DMV reconciles its vehicle license fee collections to the records of the controller's office.

Our review found that the DMV effectively modified its information systems to implement the statutorily required changes related to vehicle license fees billed and collected in

fiscal year 2004–05. Most importantly, to comply with the provisions of Chapter 211, Statutes of 2004, the DMV changed the vehicle license fee rate charged to vehicle owners from 2 percent of the market value of a vehicle with a 67.5 percent offset for vehicle registrations due before January 1, 2005, to a rate of 0.65 percent of the market value of a vehicle for registrations due on or after January 1, 2005. This change to the DMV’s information systems meant that the bills the DMV sent to vehicle owners contained sufficiently detailed information to ensure that the DMV could account for the fees when vehicle owners made payments. Consequently, as vehicle owners paid the fees, the DMV’s systems correctly captured the vehicle license fee offsets related to the fees that were due to the DMV before January 1, 2005, even when vehicle owners paid the fees after that date. Further, the DMV’s systems calculated the correct rate for vehicle license fees that were due to the DMV on or after January 1, 2005, even when the fees were paid before that date.

Our test of a sample of 39 individual transactions of vehicle license fees paid found that the DMV appropriately accounted for the vehicle license fees it collected and vehicle license fee offsets in fiscal year 2004–05.

When we tested a sample of individual transactions of vehicle license fees paid to ensure that the system changes took effect as intended, we found that the DMV appropriately accounted for the vehicle license fees it collected and vehicle license fee offsets in fiscal year 2004–05. Specifically, in our review of 30 transactions for vehicle license fee offsets related to vehicle license fees due before January 1, 2005, and collected by the DMV during the fiscal year, we found that all of the transactions appropriately accounted for vehicle license fee offsets. In addition, among vehicle license fees that were due on or after January 1, 2005, and collected by the DMV, all nine transactions we reviewed were appropriately accounted for and reported. Further, all the vehicle license fee and offset transactions we reviewed were included in the daily collections and offsets the DMV reported to the controller’s office. Finally, we found that each month the DMV reconciled its vehicle license fee collections to the records of the controller’s office.

Our review also revealed that the DMV appropriately reconciled data in its information systems related to vehicle license fee offsets and collections with the related data in its accounting system. The reconciliation was important because it served as a bridge between the individual transactions we reviewed and the offsets and related collections the DMV reported to the controller’s office. The collections data included in the DMV’s accounting system formed the basis of the vehicle license fee collections received by the controller’s office during fiscal year 2004–05 and is consistent with the flow of vehicle license fee revenues between the DMV and the controller’s office in prior years.

THE DMV DETERMINED THAT ITS VEHICLE LICENSE FEE COLLECTIONS WOULD HAVE TOTALED \$6.5 BILLION IN FISCAL YEAR 2004–05

The DMV plans to report to the controller's office that the DMV would have collected \$6.5 billion in vehicle license fees had the 2 percent rate remained in effect during fiscal year 2004–05. At the same time, the DMV intends to report that its calculation of the vehicle license fee reduction for fiscal year 2004–05 totaled \$4.4 billion. The vehicle license fee reduction represents the difference between the fees the DMV would have collected if vehicle owners had paid fees at the 2 percent rate and the fees it actually collected in fiscal year 2004–05 using the lower vehicle license fee rate of 0.65 percent. Table 3 on the following page presents the detail by month of the total vehicle license fee reduction the DMV calculated for fiscal year 2004–05.

As Table 3 shows, the DMV's vehicle license fee reduction has two components. The first component is the monthly totals of the vehicle license fee offsets related to fees the DMV collected that were due to it before January 1, 2005. Because the DMV calculated the offset amounts and included them on the bills it sent vehicle owners, the DMV was able to accumulate those amounts in its information systems as it processed paid vehicle license fees. The second component is the total of the vehicle license fees the DMV collected that were due to it on or after January 1, 2005, which is multiplied by a factor to calculate the additional fees the DMV would have collected if the 2 percent rate had remained in effect. The table also indicates that the DMV maintains data to identify when it collected the fees and the year for which it assessed the fees. In particular, the table identifies the offsets related to fees the DMV collected each month during fiscal year 2004–05 that were due to it in fiscal year 2004–05 and in prior fiscal years.

The DMV maintains data to identify when it collected the fees and the year for which it assessed the fees.

Further, Table 3 shows the vehicle license fees the DMV collected each month that were due to it on or after January 1, 2005. We found that as amounts due on or after January 1, 2005, the DMV's accounting records include some fees it collected during fiscal year 2004–05—largely from July through September 2004—at the 2 percent rate that had been in effect for a short period in fiscal year 2003–04. To the vehicle owners who paid those fees in fiscal year 2004–05, the DMV subsequently made refunds that it also includes in its accounting records. The net effect of including both the collection and refund amounts in the accounting records is that those fees are recorded at the 0.65 percent rate. We have retained them in the column

The Department of Motor Vehicles Maintains Specific Data About the Offsets and Fees Collected That It Used to Calculate the Vehicle License Fees It Would Have Collected at 2 Percent for Fiscal Year 2004–05

Month	Vehicle License Fee Offsets* Related to Fees Due				Vehicle License Fees Due on or After January 1, 2005	Total
	Fiscal Year 2001–02	Fiscal Year 2002–03	Fiscal Year 2003–04	July 1, 2004, to December 31, 2004		
July	\$ 90,803.00	\$ 1,200,016.00	\$ 4,226,402.00	\$ 424,586,405.97	\$ 347,332.61	
August	79,240.00	1,083,617.00	3,823,889.81	377,136,135.40	346,834.84	
September	67,322.00	1,035,189.00	3,644,784.00	363,474,318.70	284,286.28	
October	68,575.00	977,747.00	3,581,721.00	346,908,158.50	2,181,943.65	
November	62,335.00	948,792.00	3,475,100.00	288,674,947.41	21,760,956.20	
December	73,450.00	977,358.00	3,765,856.00	257,616,911.95	53,566,789.98	
January	72,737.00	888,445.00	3,622,462.00	124,231,150.11	103,751,002.79	
February	87,426.00	1,064,657.00	4,028,972.00	53,387,426.11	136,868,589.48	
March	86,105.00	1,189,224.00	4,633,796.00	29,388,209.28	173,671,859.30	
April	92,400.54	1,163,300.46	4,363,707.00	17,026,019.10	179,304,728.96	
May	88,272.00	1,144,486.00	4,231,659.00	10,430,220.02	176,299,111.32	
June	56,562.00	910,816.00	3,247,992.47	5,671,226.20	144,757,983.96	
Subtotals	925,227.54	12,583,647.46	46,646,341.28	2,298,531,128.75	993,141,419.37	
Adjustments to offsets and fees†				(9,925,027.23)	(944,513.61)	
Multiplying factor‡					2.07692307692	
Vehicle license fee reduction	\$925,227.54	\$12,583,647.46	\$46,646,341.28	\$2,288,606,101.52	\$2,060,716,650.42	\$4,409,477,968.22
Vehicle license fee collections						2,108,987,997.54
Vehicle license fees that would be collected at 2 percent						\$6,518,465,965.76

Source: Department of Motor Vehicles' accounting records.

* Vehicle license fee offsets relate to fees due to the DMV before January 1, 2005, even if vehicle owners paid the fees after that date.

† The adjustments relate to offsets for prorated vehicle license fee refunds, international registration plan, administrative refunds, and a reduction in vehicle license fees for refunds attributed to fees received at the 2 percent rate during fiscal year 2004–05.

‡ The multiplying factor represents the amount by which the vehicle license fees collected at 0.65 percent of the market value of vehicles—the statutory rate as of January 1, 2005—must be multiplied to determine the additional amount of vehicle license fees that would have been collected at 2 percent of the market value of vehicles.

reflecting fees due on or after January 1, 2005, because those transactions also need to have the multiplying factor applied to them to correctly calculate the vehicle license fee reduction.

Table 3 also shows that the DMV made adjustments to reduce the offsets and fees it collected during fiscal year 2004–05. Thus, the table identifies that the DMV would have collected \$6.5 billion during fiscal year 2004–05 if the 2 percent vehicle license fee rate had remained in effect. That \$6.5 billion comprises the \$4.4 billion vehicle license fee reduction and the \$2.1 billion the DMV actually collected in vehicle license fees during fiscal year 2004–05.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: September 30, 2005

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Agency's comments provided as text only.

Business, Transportation and Housing Agency

September 19, 2005

Elaine M. Howle
State Auditor
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Sacramento, CA 95814

Dear Ms. Howle:

Attached is the Department of Motor Vehicles (Department) response to your draft report, *Vehicle License Fee Adjustment: The Department of Motor Vehicles Effectively Captured the Information Needed to Calculate the Adjustment* (#2005-125). I am pleased that your review of the Department accounting records and information systems reports verified that the Department correctly calculated and reported the vehicle license fees collected and vehicle license fee offset amounts for fiscal year 2004–05. Moreover, I appreciate that your audit found that the Department appropriately reported to the State Controller's Office the vehicle license fees it would have collected if the two percent vehicle license fee rate had remained in effect, and that it recorded the vehicle license fee information in enough detail to determine the date it collected the fees and the years for which it assessed the fees.

As your report notes, many changes to the vehicle license fees and offsets have occurred within the past few years. Thank you for acknowledging that the Department appropriately modified the information systems to comply with and implement the statutorily required changes, and for providing me with the opportunity to respond to your audit report. If you need additional information, please do not hesitate to contact me, or Michael Tritz, Deputy Secretary for Audits and Performance Improvement within the Business, Transportation and Housing Agency, at (916) 324-7517.

Sincerely,

(Signed by: Sunne Wright McPeak)

SUNNE WRIGHT McPEAK
Secretary

Attachment

Memorandum

Date: September 16, 2005

To: Sunne Wright McPeak, Secretary
Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, CA 95814

From: Joan M. Borucki, Director
Department of Motor Vehicles
2415 First Avenue
Sacramento, California 95818

Subject: Vehicle License Fee Adjustment Audit - Report No. 2005-125

We have received and reviewed the draft report entitled *Vehicle License Fee Adjustment: The Department of Motor Vehicles Effectively Captured the Information Needed to Calculate the Adjustment*. We note with pleasure that the Bureau found that the Department of Motor Vehicles appropriately accounted for the vehicle license fees and offsets, that our systems provided accurate and timely reports, and that our procedures ensured appropriate processing and reconciliation of our complex revenue transactions.

If you have any questions regarding this memo, please contact Richard Bon Smith, Chief of Audits, at (916) 657-6480.

(Signed by: Joan M. Borucki)

JOAN M. BORUCKI
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press